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Foreign Economic Trends and Their Implications for the United States

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HONG KONG

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KEY ECONOMIC INDICATORS: HONG KONG
(IN MILLIONS OF U.S. DOLLARS UNLESS NOTED)

	1987	1988	1989	1/1990 Proj.
Domestic Economy				
Population (millions)	5.7	5.7	5.8	5.8
Population growth (%)	1.3	1.4	1.3	1.2
GDP in current dollars	47,355	55,291	63,024	71,847
Per capita GDP, current dollars	8,436	9,732	10,939	12,250
GDP in local currency (1980=100) % change	13.9	7.2	2.5	3.5
Consumer Price Index (A) % change..	5.5	7.5	10.1	10.0
Production and Employment				
Labor force (1,000s)	2,793	2,808	2,796	2,788
Unemployment (avg. % for year).....	1.9	1.6	1.3	1.3
Industrial production (local currency base 1986=100) % Change	16.0	6.0	1.7 3/	--
Govt. oper. surplus or deficit as % of GDP	+1.5	+3.5	+2.2	+1.3
Balance of Visible and Invisible Trade				
Exports (F.O.B.) 2/	48,478	63,165	73,142	80,974
Imports (C.I.F.)	48,467	63,899	72,151	80,147
Visible trade balance	+11	-734	+991	+827
Foreign direct mfg. investment (new)..	201.0	647.0	*	--
External public debt (at end-March)...	178.0	128.0	128.0	--
Debt-service paid	50.0	--	--	--
Debt-service owed	--	--	--	--
Debt-service ratio as % of merchandise exports	neglig	--	--	--
Foreign exchange reserves (year end)..	*	*	*	*
Average exchange rate for year (X=US$1.00)	7.798	7.806	7.800	7.811
Tourist Arrivals (1,000s)	4,502	5,589	5,361	5,897
Total Visitor Expenditure	3,185	4,163	4,595	5,353
Foreign manufacturing investment				
Total (cumulative) (year end) ...	2,705	3,352	*	--
U.S. (cumulative) (year end)	986	1,141	*	--
U.S. share (%)	36.5	34.0	*	--
U.S.- Hong Kong Trade				
U.S. exports to H.K. (F.A.S.) ...	4,135	5,297	5,927	6,412
U.S. imports from H.K. (C.I.F.) ..	9,338	9,337	9,251	9,796
Trade balance	-5,203	-4,040	-3,324	-3,384
U.S. share of H.K.'s domestic exports (%)	37	33	32	32
U.S. share of H.K.'s imports (%)..	9	8	8	8
U.S. bilateral aid (Economic/Military)	N.A.	N.A.	N.A.	N.A.

- Principal U.S. exports (1989): Elec. machinery, tobacco manufactures, office machines, artificial resins & plastic materials & transport equipment.
- Principal U.S. imports (1989): Garments, electronics, office machines, photographic apparatus & elec. machinery.

Note: 1/ Consulate estimate 2/ Includes Re-exports 3/ Jan-Sept Figures
Note: N.A. - Not Applicable * - Not Available
Some figures may differ from previous years', as revised by HKG.
Sources: Hong Kong Government Census & Statistics Department.

SUMMARY:

In 1989, the gunfire that rocked Tiananmen Square on June 4 and softness in markets of Hong Kong's key trading partners slowed the performance of the territory's economy compared with recent years. Hong Kong's economy (as measured by gross domestic product) grew 3 percent in contrast to the 10.5 percent average of 1987-88.

Hong Kong's exports rose 3 percent in 1989 over 1988 in spite of lackluster performance by the three main manufacturing industries: textiles, electronics, and watches. These sectors expect at best a modest rebound in 1990, because of uncertainty in Hong Kong's principal market -- the United States. In the 1990s, Hong Kong's manufacturing will depend on a move toward high-end production of electronics and watches. High wages are eroding competitiveness in low- to mid-priced lines.

The service industry increasingly drives Hong Kong's economy. Although 1989 tourist arrivals dropped by 4 percent, total dollars spent jumped a healthy 10 percent. Hotel occupancy rates fell, but stayed high enough to earn profits. Early results in 1990 indicate the industry is rebounding. Hong Kong in 1989 again moved more container tonnage than any other port in the world, boding well for a brisk shipping industry business in the 1990s. After performing impressively in 1989, banking and insurance are expected to grow again in 1990, but more modestly, reflecting the slower economy.

The Hong Kong Government remains committed to an exchange rate of about HK$7.80/US$1.00. To maintain this rate, the government must ensure that interest rates stay close to U.S. rates. As such, Hong Kong's prime lending rate of 11 percent in the second quarter should not fall much in 1990 as U.S. rates are forecasted to remain stubbornly high. The government forecasts the inflation rate to fall to 8 percent in 1990 from 10 percent in 1989, but the tight labor market may keep the pressure upward.

A $16 billion plan to build a new airport by 1997 will present U.S. companies with good prospects in project management, design engineering, and supply of specialty equipment. Hong Kong imported over $600 million of U.S. foodstuffs in 1989, creating excellent opportunities for U.S. exporters. Other best prospects include, computers, pollution control equipment, industrial machinery, and office machines and supplies. U.S. companies have invested nearly $6 billion in Hong Kong. Good opportunities exist in provision of financial services and telecommunications.

The reversion to Chinese rule in 1997 is certainly creating serious problems for Hong Kong, especially the flight of many professionals and middle-class managers. However, the

gloom-and-doom scenario often obscures important facts about Hong Kong's economy. The territory boasts the second highest per capita income in East Asia (Japan is first), enjoys one of the best deepwater ports in the world, and sits at the crossroads of the Pacific Rim's fast-growing economies.

In brief, problems notwithstanding, Hong Kong's open market, obstacle-free investment environment plus a forecast for steady if more modest growth will continue to create opportunities for U.S. exporters and investors in the early 1990s.

PART A -- CURRENT ECONOMIC SITUATION

Trade

Exports: Domestic exports, goods made in Hong Kong and shipped abroad, amounted to $28.8 billion in 1989, reflecting 3 percent growth over 1988. This performance contrasts with 11.5 percent annual growth in 1988 and 27 percent in 1987. Because the Hong Kong dollar is pegged to the U.S. dollar, Hong Kong's price competitiveness waned in third country markets as the U.S. dollar climbed against other currencies. Slackening demand in several of Hong Kong's key trading partners, including the United States, West Germany, and the United Kingdom, contributed further to the export growth decline. Nonetheless, growth in exports to China and Japan helped compensate partially for the slackness in the United States and Europe. Apparel and other textiles goods accounted for about 40 percent of Hong Kong's total exports in 1989. Other major categories included watches and clocks and electronic components.

The United States, Hong Kong's largest single export market, accounted for about 32 percent of domestic exports in 1989. Exports to the United States fell 4 percent to $9.3 billion. In 1989, domestic exports of apparel items grew by 4 percent in real terms to $9.2 billion. Fabric and fibers grew by 7 percent to $2.2 billion in 1989. Apparel items comprised about half of Hong Kong's exports to the United States.

Reexports: Goods transshipped through Hong Kong to other places in the world are classified as reexports. Reexports are composed of two main categories: goods made in China and shipped abroad out of Hong Kong, and goods imported into China from abroad through Hong Kong. Manufacturers, taking advantage of lower wages, have moved many factories to southern China, causing reexport growth to outpace domestic export growth in recent years. Reexports rose 50 percent annually in 1988 and 25 percent in 1989. Political turmoil and the austerity program in China explain the slowing in the growth of reexports in 1989. The cost of manufacturing will continue to rise in Hong Kong. As such, reexports of labor-intensive consumer

goods originating in China and destined for the United States, Europe and Japan will continue to increase in importance as part of Hong Kong's total trade picture. China and the United States are the main destinations for reexports from Hong Kong.

Imports and Retained Imports: In 1989 total imports grew 9 percent in real terms to $72.2 billion. China, Hong Kong's chief supplier, accounted for 35 percent of the territory's total imports. Other key sources included Japan (17 percent), Taiwan (9 percent) and the United States (8 percent). Raw materials and semimanufactures account for about 40 percent of total imports, consumer goods about 36 percent, capital goods 15 percent, and foodstuffs and fuels 8 percent.

Goods imported into Hong Kong and used locally are classified as retained imports. Reflecting a slackening in domestic demand, retained imports showed virtually no growth in 1989, holding steady at $27.7 billion. Retained imports comprised 38 percent of Hong Kong's imports in 1989. Japan remained the largest source of Hong Kong's retained imports, accounting for 23 percent of the total.

Trade Outlook: Hong Kong recorded a trade surplus of $991 million in 1989, against a $734 million deficit in 1988. With the anticipation of weak domestic demand and, hence, lower total imports than total exports, Hong Kong will likely record a somewhat smaller visible trade surplus of over $800 million in 1990.

Construction and Real Estate Industries

Behind the services and manufacturing sectors, the construction industry has formed one of the pillars of Hong Kong's boom during the last two decades. In spite of a temporary downturn in luxury apartment sales and the leveling off of office rental prices caused by the Beijing massacre, the construction industry worked to its full capacity in 1989. Total construction expenditures rose an estimated 5 percent in real terms. Construction has accounted for about 5 percent of Hong Kong's economic activity (as measured by gross domestic product) in the 1980s. This would have yielded conservatively a turnover of over $3 billion in 1989, although industry sources would place that figure substantially higher.

The Hong Kong Government made the big construction news in 1989 by announcing a $16 billion infrastructure project featuring a plan to build a new airport by 1997. This mammoth project will involve extensive land reclamation and include the building of two runways, cargo and passenger terminals, tunnels, bridges, and new highways to link Hong Kong with an airport site off the outlying Lantau Island. The plan also features a modernization of already excellent seaport container facilities. Although

skeptics, including key Communist Chinese leaders, have criticized the project as far too expensive, the Hong Kong Government counters that the new airport will bolster confidence and maintain easy access to the territory for business travelers, cargo, and tourists -- essential inputs for economic health after the uncertainty of reversion to Chinese rule in 1997.

In spite of daily headlines of gloom-and-doom for the building industry caused by the Chinese crackdown, the first quarter of 1990 saw construction begin or push ahead on major new office buildings, a cable television network, and a major electric power generation plant. Demand for public housing units -- which comprise as much as 50 percent of the total local housing market -- still outpaces supply. A 1 percentage point increase in mortgage rates to 11 percent is doing little to slow the brisk demand for lower- to moderate-priced apartments. With the government's commitment to the airport firm and relatively high rates of real return on property likely in the near future, it appears the sound of bulldozers, jackhammers, and pile drivers will continue to permeate the Hong Kong air in the 1990s.

Major Manufacturing Industries

Textiles: Textiles is Hong Kong's single most important manufacturing industry. Hong Kong's apparel makers have earned a worldwide reputation for skillful design, quality, and excellent delivery times. Although softness in the U.S. and certain European markets has contributed to smaller growth during the last two years, the industry claims labor shortages have contributed most to the problem of capacity underutilization. Additionally, the labor gap has driven up wages and eroded price competitiveness. Hong Kong's wages run ten times higher than China's. As a result, although textiles will continue to play a key role in Hong Kong's economy in the early 1990s, the industry will become increasingly vulnerable to possible reductions in U.S. and European quotas or increases in quotas of cheap labor competitors. Industry sources argue that labor shortages will continue unless the government allows workers to enter more freely from China.

Electronics: The electronics industry has consisted mainly of the assembly of consumer electronics designed abroad and assembled from imported chips and printed circuits. However, the cost of labor and factory space rocketed in the late 1980s and eroded competitiveness. To survive, most of Hong Kong's electronics firms subcontracted or created joint ventures across the border in low-wage China. This helped contain costs, but less demand in the United States, Hong Kong's principal market, slowed growth to less than 1 percentage point

in 1989. With U.S. demand to improve only slightly if at all in 1990, Hong Kong's electronic industry faces another year of flat or low growth.

Recovery of robust growth over the long term depends on Hong Kong's ability to shift toward manufacture of higher value, sophisticated goods less susceptible to price competition. In this area, Hong Kong faces stiff competition from Taiwan, South Korea and Singapore, which already enjoy a broader base in high tech industry and considerable support from their governments. In a catch-up effort, the government plans to form a semiconductor design center by the end of 1990. The facility will train electronic engineers borrowed from Hong Kong-based companies. The project will try to create expertise in integrated circuits.

Watches and Clocks: In 1989, Hong Kong's watch and clock exports overall declined by 2 percent. Exports to the United States, Hong Kong's single largest market, dropped by 9 percent. The industry's problems included the labor shortage and aging of skilled workers. Young people are shunning jobs in watch factories. Additionally, the sector relies heavily on components from Japan and Switzerland. Competition from Taiwan and South Korea has lowered local manufacturers' profit margins. In spite of the problems, indications early in 1990 show that the industry may recover the sales lost in 1989 but not much more. Hong Kong's ability to compete in the industry will depend greatly on its move towards higher end production. To this end, the government last year set up a precision tooling and training center within the quasi-governmental Vocational Training Council to improve the work force.

Services

Tourism. The June 4 Beijing massacre temporarily reversed the frenzied growth of Hong Kong's tourism industry, which helps to drive the huge retail sales, restaurant, and hotel industries. After visitor arrivals had climbed by nearly 2 million in 1986-88, the figure dropped by 4 percent or 200,000 visitors in 1989. Hotel occupancy rates, which had averaged 95 percent during the boom, fell to 70 percent but still above the 65 percent rate required to earn a profit. Hong Kong added over 4,000 new rooms in 1989, which contributed to the lower occupancy rate. Moreover, in spite of fewer arrivals, tourists still spent an estimated $4.6 billion, up a healthy 10 percent from 1988. The sector still generated the third largest amount of foreign exchange for the Hong Kong economy. While in 1989 tourism from major markets of Japan, Europe, and the United States fell, Taiwanese and Korean tourism rose as those countries enjoyed greater travel freedoms. This bodes well for Hong Kong tourism in the early 1990s. Barring any other cataclysm, local tourism industry leaders are forecasting a

10 percent increase in arrivals in 1990, and 16 percent rise in total expenditures. The February 1990 visitor arrival increase of 12 percent over February 1989 may signal they are correct.

Shipping: Hong Kong is one of the world's leading maritime centers. Hong Kong shipowners control over 50 million deadweight tons, making them a global force. Hong Kong moves more container tonnage by far than any other single port in the world. In spite of the Chinese crackdown and austerity program, 1989 tonnage again grew, albeit not as much as the shipping industry had anticipated. Almost all of southern China's exports and imports move through the Hong Kong port. Moreover, Hong Kong serves the booming southeast Asian economies of Thailand, Malaysia and Singapore as a transshipment point. These economies will continue to grow in the 1990's. Barring an unforeseen drastic disturbance in the current pattern of world trade, the Hong Kong shipping industry should continue to thrive in the first half of the 1990s.

Banking: Many foreign banks have chosen Hong Kong as a regional center in recent years. This, along with an excellent telecommunications network, has contributed to rapid growth of the overall financial services industry as well as professional and clerical employment in that sector. Over 160 banks operate in Hong Kong and another 230 institutions take deposits. In 1989, the banking sector enjoyed another favorable year: total deposits grew about 20 percent to $129.1 billion in 1989. New loans grew at the brisk pace of 32.2 percent to $162.9 billion. Sustained demand from the building industry and working capital requirements of manufacturing firms helped boost the demand. Because of anticipated slowdown in economic growth, local bankers forecast more moderate growth of the industry in 1990. Even so, Hong Kong, as an important gateway for ever expanding trade in the Asia-Pacific region, will continue to create business opportunities for the banking industry. Moreover, massive infrastructural development projects in the Hong Kong/Macau/southern China area should provide new opportunities for financial institutions in the 1990s. Nonetheless, the uncertainty caused by transition to Communist China's rule in 1997 and the flight of middle class financial professionals and qualified clerical personnel creates some clouds on an otherwise sunny horizon.

Insurance: Hong Kong has some of the most liberal rules in the world for establishment of foreign insurance companies. This factor plus rising per capita income and the expanding middle class' need for group insurance has spurred an industry which boasts 273 authorized companies at the beginning of 1990. In contrast, some other newly industrialized East Asian economies have only six or seven true competitors. Life insurance sales have shown the best performance in the late 1980s. This trend is expected to continue. The industry expects continued

expansion, but the slower economy in 1990 may reduce the pace of growth in comparison to recent years.

Stock Market/Brokerage: The brokerage and stock market have also served as a source of growth and employment in Hong Kong. The performance of Hong Kong's economy propelled local stock shares to their highest average prices ever in May 1989. Then the June 4 crackdown in China caused the market to plummet, but by year's end average stock prices had recovered sufficiently to record about a 6 percent increase over average end-of-1988 prices. Trading volume doubled in value to $38.4 billion in 1989 over 1988. Although stock prices drifted in first quarter-1990, total turnover plus Hong Kong's location and advanced telecommunications infrastructure market will contribute toward a thriving regional brokerage industry in the early 1990s.

Financial Developments

Exchange Rate. To bolster confidence in Hong Kong, the government has sought to ensure a stable rate of exchange for the last five years at about HK$7.80/US$1.00. They have succeeded. Even with the turmoil in China last year, the Hong Kong dollar remained steady. Hong Kong's inflow of foreign exchange from exports and services and investments, although growing at a slower rate than in recent years, will easily permit financing of imports and other current, foreign currency obligations. The Hong Kong Government carries negligible foreign debt. The government and majority of the local financial community insist linkage to the dollar must stay fixed for confidence reasons. Barring an unforeseen explosion on the mainland, which might encourage massive, sudden capital flight, the current rate should hold steady in 1990. The Hong Kong dollar is fully convertible. No foreign exchange restrictions exist.

Interest Rates. In order to maintain a fixed rate of exchange with the U.S. dollar, Hong Kong's interest rates must closely follow U.S. interest rates. A spread much larger than 1 percentage point would cause significant flows into or out of the dollar from the Hong Kong currency, and prompt volatility in the exchange rate. During the last half of 1988 and 1989, as U.S. interest rates rose, the Hong Kong Government-controlled Exchange Fund reduced liquidity in the interbank lending market to tighten credit and force the banks to raise interest rates. After the Beijing massacre and a brief financial panic as customers flocked to withdraw funds from the Bank of China, the Exchange Fund worked to increase liquidity. As such, interest rates dipped a bit in the fall and winter. However, early in the second quarter of 1990, the Exchange Fund intervened and prompted commercial banks to raise their prime lending rate to 11 percent as U.S. rates have stayed stubbornly high. With the Federal Reserve in the United States still preoccupied with a

high underlying rate of inflation, it is unlikly U.S. interest rates, and thus Hong Kong's rates will fall significantly if at all during the rest of this year. Early in the second quarter of 1990, rates on short-term dollar deposits in Hong Kong averaged from one half to 1 percentage point above corresponding U.S. rates.

Inflation: Consumer prices rose 10.1 percent in 1989. The rate of inflation thus escalated from 8.1 percent in 1987 and 7.5 percent in 1988. A booming economy spurred strong domestic demand in the last half of the 1980s at the time of extremely tight labor markets. Additionally, the rise in purchasing power bid up the prices of relatively scarce land for residential construction. The climb in real estate also drove up the prices of office rentals, which increased the costs of doing business in Hong Kong. The current general cooling of the Hong Kong economy will exercise a downward effect on the inflation rate. However, the labor market, affected by an exodus of skilled personnel, will tighten even further. Government salaries will increase. The inflation rate may well exceed the government's forecast of 8 percent by 1 or 2 points. The government's program of heavy infrastructure spending will commence in the early 1990s. The expansionary budgets will pump up domestic demand. Unless manufacturing and business services drop off more steeply than the Hong Kong Government or private analysts currently forecast, the inflation rate will stay in the high single digits during the early 1990s.

Budget: The energetic performance of the Hong Kong economy in the late 1980s produced buoyant revenue growth and contributed heavily to the government's current, cumulative fiscal reserve equivalent to $9 billion. However, economic growth has slowed and the fiscal easy times have ended. In the current fiscal year (1990-91) revenue growth without planned new taxes would increase by only 8 percent against a 24 percent increase in expenditures. Without the announced increase in certain excise taxes and user fees, the Hong Kong Government would run a deficit of $100 million. However, the new taxes will enable the government to balance its budget and avoid touching the surplus this year. As spending begins next year for the massive infrastructure projects and restive public employees continue to push their demands for higher wages, expenditure growth will surely outpace revenue growth. The government will probably have to draw down its surplus. Additionally, if the government wishes to avoid deficit spending, it may have to resurrect the idea of a controversial new sales tax at the wholesale level.

Labor and The "Brain Drain" Problem

Services like accounting, financial management, marketing, insurance, and shipping increasingly provided the spark for Hong Kong's dramatic growth in the late 1980s. These

industries rely on university educated professionals and middle managers. Individuals of this group have regarded warily the transition to Chinese rule in 1997. Many have already "voted with their feet" -- and continue to leave in large numbers. The Beijing massacre heightened their fears. Thus rising emigration poses perhaps Hong Kong's greatest structural problem for sustained growth in the 1990s and beyond. China and the rapidly emerging economies of Southeast Asia are supplanting Hong Kong as a cheap-wage center for low-tech, light manufactured goods. Hong Kong's economic health will depend increasingly on its ability to shift toward higher tech manufacturing and bolster its service sector. It must retain skilled professionals and middle mangers to succeed. To keep skilled people, the Hong Kong government is pressing for nationality packages that would grant certain Hong Kong residents a foreign passport and ostensibly an ability to flee a potential Communist crackdown. However, the real answer to the problem of confidence may lie in the kind of attitude the Beijing government eventually adopts toward political and economic liberalization.

PART B -- IMPLICATIONS FOR THE UNITED STATES

Woeful predictions swirl about the transition to Chinese rule in 1997. Beneath this cloud lie a number of economic fundamentals that still make Hong Kong an attractive market for the United States. Hong Kong in terms of per capita income is the second most prosperous economy in East Asia -- second only to Japan. Consumers have buying power and they spend. Moreover, Hong Kong's market is completely open. There are practically no tariffs, and no cumbersome restrictions or red tape. Businesses can conclude deals without bureaucratic obstacles. Although growth has slowed from the dizzying pace of the late 1980s, the huge spending for the infrastructure projects will ensure increasing consumer buying power throughout the early 1990s. One of the best seaports in the world allows cargo to enter and exit Hong Kong easily. In brief, even in the face of the transition to Chinese rule in 1997, Hong Kong will remain a large, easily accessible market that U.S. business cannot afford to ignore.

Best Sales Prospects

Engineering and Contracting: The mammoth projects to build a new airport and improve the seaport will present billions of dollars of opportunities for U.S. contractors, especially in project management, design and engineering, and supply of specialty equipment. Experience in airport work will contribute enormously toward a successful offer. Already, U.S. contractors have won bids for the airport project management and have earned top consideration for the master plan. Other excellent opportunities include engineering and construction of the

runway and apron, the terminal building, and cargo handling areas. Moreover, the government will extend contracts for construction of an expensive and complicated series of tunnels and highways to link the new airport to downtown Hong Kong. Container handling equipment and other seaport machinery should also remain good opportunities. Construction machinery such as bulldozers, cranes, and hydraulic equipment as always will stay in high demand. U.S. suppliers must do better to compete with the Japanese who dominate this market.

Foods: Hong Kong depends almost entirely on imports for its food needs. Hong Kong's total worldwide imports of food and commodities such as wheat, cotton, and furskins have amounted to over US$5 billion in recent years. More important, Hong Kong is a key market of high-value added products like fruits, vegetables, packaged goods, wine and fruit drinks. U.S. agricultural exports to Hong Kong reached a record a US$600 million in 1989. In 1989, the United States surpassed China as the chief single supplier of poultry products to Hong Kong. Recognition and brand awareness of other U.S. products is also strengthening rapidly. Hong Kong presently consumes US$100 worth of U.S. agricultural products per person annually. Best opportunities for U.S. agricultural products include in addition to poultry, fruits and vegetables, beef and beef products, ginseng, eggs, tobacco, wheat, furskins, wine, beer and other high-value food products. U.S. companies should be prepared to fight for shelf space from entrenched European suppliers of British-controlled food chains. Recently, U.S. exporters have scored some successes in introducing products through rising Chinese-owned food chains and through promotions in big Japanese-owned department stores. Additionally, American-owned specialty outlets also provide U.S. food exporters another avenue of entry. Periodic U.S. Department of Agriculture food shows in Hong Kong offer excellent ways to introduce new products.

Computer Equipment and Computer Software: Hong Kong's wages continue to rise and labor shortages will worsen. Hong Kong's offices will need to become even more efficient and productive. Additionally, the service industry will continue to rise in importance. Banks and other deposit-taking institutions, insurance companies, foreign exchange and money brokers, and stock and commodity brokers are prospective end-users of computer systems and data-processing equipment. Other important markets for U.S. suppliers of hardware and software include the numerous Hong Kong Government institutions and utility companies. Component exporters may find Hong Kong's computer assembly firms a good market.

Pollution Control Equipment: Another high-potential sector for U.S. firms is pollution control equipment and services. The Hong Kong Government is increasingly emphasizing pollution control -- everything from waste treatment to noise abatement.

The market amounted to $150 million in 1989 and is conservatively projected to grow 10-15 percent annually in the 1990s. In 1989 an American company won a multimillion dollar contract for waste water control. As an acknowledged leaders in the field of environmental protection products, U.S. companies willing to make a strong effort should reap handsome profits in this field.

Medical Equipment: Plans by the Hong Kong Government for construction of four major hospitals in the 1990s, coupled with limited domestic production of hospital equipment, make Hong Kong an excellent market for U.S. manufacturers of hospital and physical therapy equipment. The import market for such equipment recently amounted to over $150 million. Demand for such equipment is expected to increase by at least 15 percent annually through 1991. Best prospects for sales to Hong Kong, both for its own use and for reexport to China, include cardiology equipment, neurological equipment, ophthamological equipment and instruments, renal equipment, operating room aids, products for pediatrics and obstetrics, general hospital equipment and rehabilitation aids, and high-technology monitoring, diagnostic, and research equipment.

Industrial Packing Equipment and Materials: The light industrial sector faces, too, the diminishing supply of labor and high wages. Demand is expanding for products that will take over manual packaging, wrapping, and shipping functions. Blister pack, bubble pack, automatic card wrapping, labeling, and stamping machinery will all find markets among consumer product manufacturers. The successful U.S. supplier will need to be prepared to provide service and supplies for its equipment.

Plastic Raw Materials: Hong Kong manufacturers will continue to demand plastic raw materials for expansion of the light industry sector. These manufacturers must respond to market forces and shifts in demand and are always interested in new materials and will help them keep this flexibility.

Other Opportunities: Franchising is a good prospect, particularly for the fast foods industry which has mushroomed in recent years. Aggressive marketing by a American interests has produced a phenomenal growth in outlets for one U.S. franchise. In the textiles sector, although U.S. firms have fared poorly in fabric exports to Hong Kong, the importance of apparel making in the territory still creates opportunities for American fabric makers who can produce specialty items and show flexibility on price. Finally, the expanding services sector offers opportunities to U.S. office supply exports such as filing cabinets, office furniture, and machines like photocopiers. New office buildings will create demand for carpeting.

Investment Opportunities

U.S. firms vie with Japan as the second the largest source of foreign investment in Hong Kong (China is first). Total U.S. investment in Hong Kong today approaches $6 billion. U.S. companies will enjoy good opportunities in the growing services sector. The insurance industry will continue to grow based on increasing disposable income. Determined U.S. competitors will find opportunities.

Hong Kong has steadily liberalized its telecommunications sector. A U.S.- backed consortium won the franchise to offer cable television to Hong Kong audiences. Construction has started to build a network of cables and fibers that could also transmit data. Thus the provision of private data networks and private voice networks -- if government liberalization continues along the same path -- may offer excellent opportunities.

In the manufacturing sector, the electronics, textiles and toy industries continue to attract investment. Other promising areas of investment include manufactured consumer products, telecommunications equipment, light materials manufacturing, electronic data processing machines, consumer appliances, restaurants (fast foods, etc.) and consumer-oriented franchises and joint ventures.

The inducements for investment in Hong Kong include an established code of commercial law, excellent communications and transportation links, enforced protection for intellectual property, and government policies for free and open trade and investment.

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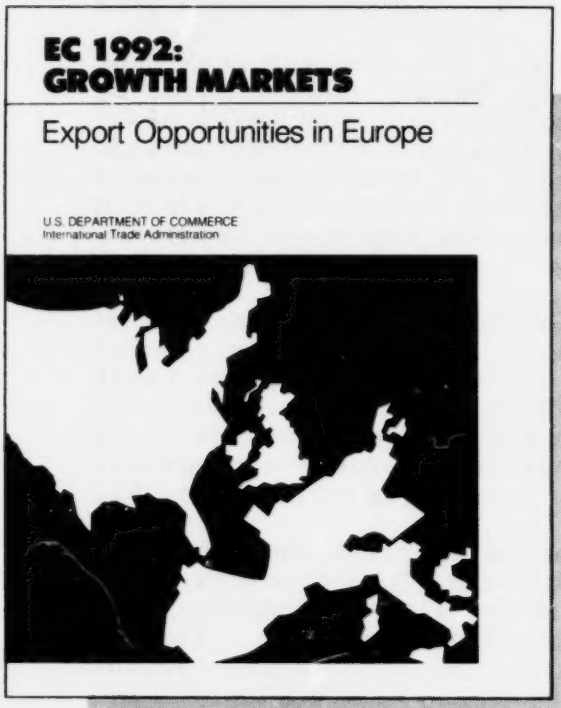

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